

Message Text

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51

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SUBJECT: NEW CANADIAN OIL POLICY

POUCHED INFO TO ALL CONSULS IN CANADA

SUMMARY: PRIME MINISTER TRUDEAU ANNOUNCED NEW NATIONAL OIL POLICY IN COMMONS ON DECEMBER 6 DESIGNED TO ASSURE SELF-SUFFICIENCY BY 1980. MAIN FEATURES INCLUDE ABOLITION OF 1961 OTTAWA VALLEY LINE CONCEPT OF TWO CANADAS FOR OIL SUPPLY PURPOSES, ESTABLISHMENT OF NATIONAL PETROLEUM COMPANY TO GIVE CANADIANS A MORE SIGNIFICANT ROLE IN DEVELOPEMENT OF THEIR OWN RESOURCES, FIRM COMMITMENT TO MOVE AHEAD IMMEDIATELY ON MONTREAL PIPELINE, TEMPORARY CONTINUATION OF VOLUNTARY PRICE FREEZE ON DOMESTIC OIL AND OF EXPORT TAX, AND FACILITATION OF MACKENZIE VALLEY GAS PIPELINE. ANNOUNCEMENT CONCLUDED WITH TRUDEAU'S ASSURANCES TO UNITED STATES THAT CANADA WILL MOVE ON NEW POLICY IN MANNER NOT RPT NOT DESTRUCTIVE TO BENEFICIAL TIES BETWEEN THE TWO COUNTRIES, CALLED FOR CONSULTATIONS WITH U.S., AND STATED THAT DEVELOPMENT OF OIL RESOURCES

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WILL PROCEED IN SUCH A WAY AS TO ALLOW FOR CONTINUED

EXPORTS TO U.S. FOR SOME YEARS YET. END SUMMARY

1. PRIME MINISTER TRUDEAU ON DECEMBER 6 ANNOUNCED IN THE HOUSE OF COMMONS PROPOSALS FOR A NEW NATIONAL OIL POLICY, WITH THE OBJECTIVE OF ACHIEVING CANADIAN SELF-SUFFICIENCY IN OIL AND OIL PRODUCTS BY 1980. HE STATED THAT IN MOVING TOWARDS THIS OBJECTIVE THE GOC "WILL ALSO WISH TO MAINTAIN A RELIABLE CAPACITY FOR SOME CONTINUING EXPORT OF OIL TO THE UNITED STATES AND A MARKET IN CANADA FOR RELIABLE FOREIGN SUPPLIERS OF OIL TO US."

2. TRUDEAU STATED ESSENTIAL REQUIREMENTS OF NEW POLICY AS FOLLOWS:

(A) CREATION OF NATIONAL MARKET FOR CANADIAN OIL (I.E., ABOLITION OF THE OTTAWA VALLEY LINE WHICH HAD FORMED BASIS FOR TWO-CANADA OIL POLICY IN PAST);
(B) PRICING MECHANISM TO PROVIDE INCENTIVES FOR OIL RESOURCE DEVELOPMENT;
(C) MEASURES TO ENSURE THAT RETURNS AND REVENUES RESULTING FROM HIGHER PRICES WILL PROMOTE SECURITY AND SELF-SUFFICIENCY;
(D) ESTABLISHMENT OF PUBLICLY OWNED CANADIAN PETROLEUM COMPANY (PRINCIPALLY TO EXPEDITE EXPLORATION AND DEVELOPMENT);
(E) EARLY COMPLETION OF PIPELINE OF "ADEQUATE CAPACITY" TO MONTREAL AND AS REQUIRED TO MORE EASTERN POINTS;
(F) INTENSIFICATION OF RESEARCH IN OIL SANDS TECHNOLOGY.

3. TRUDEAU STATED INTENTION TO PLACE ABOVE REQUIREMENTS ON AGENDA FOR FEDERAL-PROVINCIAL CONFERENCE JANUARY 22-23 AND ASKED ENERGY MINISTER MACDONALD TO CONSULT WITH ALL PROVINCES IN THE MEANTIME.

4. PM SINGLED OUT MONTREAL PIPELINE AS SINGLE MOST URGENT STEP TOWARDS ATTAINMENT OF NATIONAL GOALS AND CANADIAN COMMERCIAL CORPORATION REQUESTED TO DETERMINE IF PROJECT COULD BE EXPEDITED BY GOC PURCHASE OF STEEL
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AND PIPE WHICH WOULD LATER BE RE-SOLD AT COST "TO THOSE UNDERTAKING CONSTRUCTION OF THE PIPELINE." ALSO REQUESTED THAT NATIONAL ENERGY BOARD EXPEDITE HEARINGS ON PIPELINE ROUTE, FINANCIAL ARRANGEMENTS, PROPOSED RATES AND RIGHTS-OF-WAY COMPENSATION.

5. WHILE ACKNOWLEDGING THAT IN LONGER RUN PRICES FOR CANADIANS MUST RISE IF FRONTIER AND NON-CONVENTIONAL

SOURCES OF SUPPLY ARE TO DEVELOP TO ATTAIN SELF-SUFFICIENCY, TRUDEA SAID GOC HAD CONCLUDED THAT THERE IS NO NEED NOR JUSTIFICATION FOR PRICE RISE IN HEATING OIL DURING PRESENT HEATING SEASON AND THEREFORE VOLUNTARY PRICE FREEZE WILL CONTINUE BEYOND JANUARY 31. IN THIS CIRCUMSTANCE, GOC WILL CONTINUE TO LEVY EXPORT TAX OR, AFTER FEBRUARY 1, "A CHARGE EQUAL TO THE DIFFERENCE BETWEEN OUR DOMESTIC PRICE AND THE EXPORT PRICE AS DETERMINED BY THE NATIONAL ENERGY BOARD." PM STATED OFFER TO SHARE TAX TO JANUARY 31 WITH PROVINCES ON 50/50 BASIS STILL STANDS AND THAT DISPOSITION OF REVENUES AFTER FEBRUARY 1 WILL BE DISCUSSED WITH PROVINCES. ON QUESTION OF FUTURE DOMESTIC PRICE RISES, TRUDEAU EMPHASIZED THAT GOC NOT PREPARED TO SEE WINDFALLS ACCRUE TO PRIVATE CORPORATIONS OR SOLELY TO PRODUCING PROVINCES.

6. LEGISLATION FOR NATIONAL PETROLEUM COMPANY TO BE INTRODUCED IN NEXT SESSION. PRUPOSES OF COMPANY AS FOLLOWS:

(A) CONVENTIONAL OIL AND GAS EXPLORATION IN PROVINCES AND AREAS UNDER FEDERAL CONTROL (NWT, YUKON AND ATLANTIC AND PACIFIC OFFSHORE COASTAL AREAS);

(B) R AND D TO DEVELOP "IN SITU" TECHNOLOGY FOR OIL SANDS. TO THIS END, \$40 MILLION TO BE INVESTED OVER NEXT FIVE YEARS IN COOPERATION WITH ALBERTA AND PRIVATE COMPANIES. ALTERNATIVELY, GOC PREPARED TO DISCUSS IMPLEMENTING PROJECT UNDER AUSPICES OF "AN INDEPENDENT CANADA-ALBERTA INSTITUTE;"

(C) INVESTMENT (IN AGREEMENT WITH ALBERTA) IN DEVELOPMENT OF THOSE OIL SANDS EXPLOITABLE BY EXISTING TECHNOLOGY;

(D) POSSIBLE DEVELOPMENT OF OTHER RESERVES DISCOVERED

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THROUGH ITS OWN EXPLORATION ACTIVITIES;

(E) PURCHASE OF FOREIGN OIL AND OIL PRODUCTS FOR ENSURING ADEQUATE AND RELIABLE IMPORTS TO MEET PRESENT AND FORESEEABLE NEEDS;

(F) FUTURE POSSIBILITY OF ENTERING REFINING AND DISTRIBUTION FIELDS (PM STATED COMPANY'S IMMEDIATE AND PRESENT TASKS MAY NOT LEAD TO THIS ACTIVITY "FOR SOME TIME".)

7. TRUDEAU SAID THAT PURPOSE OF COMPANY NOT RPT NOT TO DISCOURAGE FOREIGN INVESTMENT "WHICH WILL CONTINUE TO BE WELCOME." NATIONAL COMPANY WILL BE READY TO ENTER INTO JOINT VENTURES, ALTHOUGH GOC WILL LOOK TO NEW ENTITY TO CONTRIBUTE TO INCREASED CANADIAN PRESENCE IN OIL EXPLORATION AND DEVELOPMENT.

8. TRUDEAU ALSO ANNOUNCED THAT GOC BELIEVES IT IN PUBLIC INTEREST TO FACILITATE EARLY CONSTRUCTION OF MACKENZIE VALLEY GAS PIPELINE "TO MOVE ALASKAN GAS TO UNITED STATES MARKETS AND AT THE SAME TIME TO MAKE IT POSSIBLE TO MOVE CANADIAN NORTHERN GAS TO CANADIAN MARKETS". SPECIFICALLY, TRUDEAU SAID, " I CAN SEE NO REASON WHY CANADA COULD NOT GIVE SUITABLE UNDERTAKINGS AS TO THE MOVEMENT, WITHOUT DISCRIMINATORY IMPEDIMENT, OF ALASKAN GAS THROUGH A PIPELINE ACROSS CANADA TO UNITED STATES MARKETS PROVIDED ALL PUBLIC INTEREST AND REGULATORY CONDITIONS ARE MET IN THE BUILDING AND OPERATION OF THE PIPELINE. AN UNDERTAKING OF THIS SORT WOULD, OF COURSE, BE RECIPROCAL, WITH THE SAME ASSURANCE BEING GIVEN TO CANADA REGARDING OUR OIL AND GAS SHIPMENTS THROUGH THE UNITED STATES."

9. IN CLOSING HIS COMMONS' ANNOUNCEMENT, TRUDEAU SAID, "I SHOULD LIKE TO REASSURE THE GOVERNMENT AND PEOPLE OF THE UNITED STATES THAT, WHILE WE MUST MOVE TOWARD SECURITY OF SUPPLY AND A CAPACITY FOR SELF-SUFFICIENCY, WE WILL NOT DO SO IN A MANNER WHICH IS DESTRUCTIVE OF THE BENEFICIAL TIES WHICH HAVE DEVELOPED BETWEEN OUR TWO COUNTRIES. OBVIOUSLY, THE FIRST DUTY OF ANY CANADIAN GOVERNMENT MUST BE TOWARDS ITS OWN PEOPLE. BUT WE WILL WISH TO CONSULT WITH THE UNITED STATES, UNCLASSIFIED

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AND WE WILL PLAN THE DEVELOPMENT OF OUR OIL RESOURCES IN SUCH A WAY AS TO CONTINUE TO EXPORT FOR SOME YEARS YET. WE PROBABLY WILL ALSO CONTINUE TO MEET PART OF OUR TOTAL REQUIREMENTS THROUGH IMPORTS FOR AT LEAST SOME PERIOD, EVEN AFTER THE PIPELINE TO MONTREAL IS COMPLETED." SCHMIDT

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